

SILVERDALE WATER DISTRICT NO. 16
Kitsap County, Washington
January 1, 1989 Through December 31, 1991

Schedule Of Findings

1. Annual Reports Should Be Properly Prepared And Submitted On Time

The district did not prepare and submit required annual financial reports in a timely manner. The annual reports for 1990 and 1991 were submitted on July 31, 1991, and August 31, 1992, respectively.

In addition, the district's 1989, 1990, and 1991 financial reports, as listed below, contained material errors when first presented to the auditor.

- Balance Sheet
- Statement of Revenues, Expenses, and Changes in Equity
- Notes to Financial Statements
- Schedules of Long-Term Debt

The necessary corrections were made for presentation in the audit report. However, the financial reporting errors resulted in additional audit costs for the district.

RCW 43.09.230 states in part:

The state auditor shall require from every taxing district and other political subdivisions financial reports covering the full period of each fiscal year, in accordance with the forms and methods prescribed by the state auditor, which shall be uniform for all accounts of the same class. Such reports shall be prepared, certified, and filed with the division within one hundred fifty days after the close of each fiscal year . . . (Emphasis added.)

The delays in preparation and submission of the annual reports and the financial reporting errors were due in part to the district's rapid growth in recent years and the installation of new accounting software. This growth required the district to meet the enhanced reporting requirements of Class A water districts.

District officials have a statutory and fiduciary duty to inform the public and other interested parties of its financial condition and activity. Inaccurate and late financial reports deny users timely access to accurate financial information.

We recommend the district officials ensure the timely preparation and filing of its annual report in accordance with statutory requirements.

2. Fixed Asset Controls Should Be Improved

The district did not have a detailed fixed asset listing to support the cost of utility plant. In addition, a fixed asset inventory was not performed on a periodic basis.

RCW 43.09.200 states in part:

The state auditor . . . shall formulate, prescribe, and install a system of accounting and reporting. The system shall exhibit true accounts and detailed statements of funds. The accounts shall show the receipt, use, and disposition of all public property . . . necessary to isolate and prove the validity of every transaction.

Because the district lacked adequate fixed asset accounting records and a periodic fixed asset inventory was not performed, we were unable to render an opinion on the district's financial statements for 1991, 1990, and 1989.

By not maintaining adequate internal controls over fixed assets, errors and irregularities could have occurred and not been detected by management in a timely manner.

The district felt their fixed asset class life depreciation records were all that was required.

We recommend that the district improve controls over fixed assets.

3. Accounts Receivable Controls Should Be Improved

During our audit of the district's accounts receivable, we noted the following internal control weaknesses:

- a. The control account was not reconciled with the detail account balances.
- b. All office staff had access to an account adjustment process that did not post to the control account. There was no management review of these adjustments.

By not reconciling the control account and not recording and reviewing account adjustments, errors and irregularities could have occurred and not been detected by management in a timely manner.

The lack of control account reconciliation was caused by a software design error. The software could not produce a detail account balance report. During 1992, the district obtained new accounts receivable software that did have such a report option. However, the district did not use this report option for control account reconciliation. Management was unaware that account adjustments should have been reviewed.

We recommend that the district reconcile the accounts receivable control account with detail account balances and review all account adjustments.

4. Segregation Of Duties Should Be Improved Over Cash Receipting

During our audit of the district's cash receipting system, we noted the cashier performed all of the following duties without management review:

- a. Receipted payments including mail receipts.

- b. Posted payments to customer accounts.
- c. Reconciled the cash register and the cash receipt posting activity.
- d. Prepared and delivered the daily bank deposit.
- e. Reconciled the bank account.
- f. Posted customer account adjustments.

By not adequately segregating and reviewing the cashier's duties, errors and irregularities could have occurred and not been detected by management in a timely manner.

These internal control weaknesses were primarily caused by increased specialization of duties resulting from the district's rapid growth over the last eight years.

We recommend management review cashiers posting and reconciling duties and implement an effective system of internal controls designed to ensure the protection of district assets.

